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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 03/17/08

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- (1) Survey of top executives of leading companies: 23 PERCENT see economy deteriorating; Many wary of strong yen, weak U.S. economy

NIKKEI (Top Play)
March 17, 2008

The Nikkei yesterday released the results of a survey of 100 presidents of major corporations. According to the result, those executives who replied, "The economy is deteriorating" reached 23.8 PERCENT, three times higher than the 7.5 PERCENT who held that view in the survey last December. The top corporate executives thus are increasingly alarmed about the sharp rise in the yen and the rapid slowdown of the U.S. economy. In the survey of 500 regional companies also carried out by the Nikkei, 30 PERCENT of the top executives replied, "The economy has taken a turn for the worse." Regional companies are increasingly taking defensive actions to deal with the rising cost of raw materials that is squeezing corporate profits and dampening desires for increased capital investment.

The survey of 100 top executives was conducted in mid-March, targeting presidents of leading domestic companies, including chairmen and bank presidents. The survey elicited responses from the leadership at 134 firms. The survey of 500 regional companies received replies from 422 top executives at leading regional companies, business establishments and groups.

In the survey of 100 top executives, 23.8 PERCENT of respondents chose one of the following views: "The economy has taken a turn for the worse," "The economy is slowly deteriorating" or "The economy is rapidly deteriorating." A total of 7.5 PERCENT in the survey conducted in December last year replied that the economy was deteriorating. The outcome of the survey this time indicates that corporate managers' feelings about the state of the economy have rapidly cooled down. The number of those who replied, "The economy is expanding" has dropped from the 64.2 PERCENT in the previous survey to 27 PERCENT.

The diffusion index (DI) for current economic conditions, calculated

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by subtracting the percentage of those who replied that the economy is deteriorating from the percentage of those who said that the economy is expanding, has plummeted from the 56.7 PERCENT recorded in the previous survey to 3.8 PERCENT. The figure is well below 45.5 PERCENT posted in February 2005, which also saw a drop in the DI due to inventory adjustment in the information and technology (IT) sector. Top executives are most concerned about the movements of the U.S. economy. As the country or region facing the biggest threat of an economic slowdown, a total of 94.9 PERCENT cited the U.S. The number of those who replied that the U.S. economy is deteriorating came to 76.9 PERCENT.

Following the dollar's brief fall to the 99 yen level on March 13, 100 top executives were asked additional questions, of whom 73 responded. Asked about the currency's impact on operations in the event the yen appreciation trend that has exceeded the 100 to the dollar level continues, many respondents felt a strong sense of crisis, with 26 PERCENT replying that the dollar below 100 yen would hurt earnings as a result of declining exports, with 52.5 PERCENT saying that corporate performances would deteriorate as a result of a domestic economic slowdown. It has been anticipated that the high-yen trend would ease high prices in raw materials. However, the number of those who replied, "Advantage of importing raw materials and finished products is greater (than the negative impact of the strong yen)," was no more than 12.3 PERCENT.

Compared with the survey of 100 top executives, the survey of 500 regional companies, of whom many are small businesses found 32.2 PERCENT who felt the economy is deteriorating, and 28.2 PERCENT seeing the economy as expanding. DI dropped to negative 4. DI in the previous poll, carried out in August 2007, stood at 52.9.

According to region, DIs of all blocs thought the nation were in the plus column. However, those of six blocs excluding the Tokai, Kinki, Chugoku and Shikoku blocs moved into the minus column. The drop in the DIs of the Hokkaido and Koshinetsu blocs were pronounced due to a strong impact of high prices of raw materials.

(2) G-20 ends; New framework proposed for global warming dialogue; Idea of setting targets draws fire from developing countries; Japan expected to run into difficulties in handling matter

Cabinet ministers of the Group of 20 (G-20) wound up their three-day meeting on global warming on March 16, after discussing a new framework to succeed the Kyoto Protocol, which is to expire in 2012. In the meeting, the last of its kind, the member countries shared the need to establish a new arena for dialogue and discussion between industrialized and developing countries, such as China and India.

Greenhouse gas emissions by the G-20 account for 80 PERCENT of the global total. The participating countries agreed on the need to continue discussing the matter at the same table. As the chair of this year's G-8 Lake Toya Summit, Japan before long will make a proposal to relevant countries on establishing a new venue for dialogue with the aim of reaching an agreement at the Summit in July.

Economy, Trade and Industry Minister Akira Amari, co-chair of the

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meeting, summed up the meeting, saying: "Firm unity has been confirmed between the industrialized and developing countries to work together to contribute to the global environment." Environment Minister Ichiro Kamoshita made a speech yesterday in which he announced a plan to hold an international meeting in May to study the sector-specific approach to set a common target for each industry, such as steel and cement, and for each field, such as office and household, to help reduce greenhouse gas emissions.

But there still exists a wide gap in views between industrialized and developing countries. The sector-specific approach drew objections from developing countries, which fear that industries in their countries would be required to achieve energy efficiency on a par with industrialized countries and that they would be integrated into global targets that combine each country's projected sector-specific reduction target.

There have been strong negative reactions to setting numerical targets from long before. In the G-20 meeting, advanced countries argued that certain levels of targets must also be placed on developing countries under a post-Kyoto framework, while China and India called for common but differentiated responsibilities. Their logic is that although they would accept certain responsibilities, industrialized nations should first reduce emissions ahead of them.

The G-20 also exposed differences in views on financing. The clean development mechanism (CDM), now in force based on the Kyoto Protocol, is a system allowing industrialized countries to assist developing countries in technologies and funds. "It is easy on countries with large room for emission reductions," as a METI official put it. The Japanese government envisions reviewing this system to launch a mechanism giving assistance first to developing countries that are actively addressing global warming with the aim of encouraging competition among developing countries. But developing countries are calling for the continuation of the current system.

The G-20 was the first international cabinet ministerial to discuss global warming since the 13th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP13), held last December in Bali, Indonesia. Looking back on the G-20 meeting, Environment Minister Kamoshita said: "Attendants expressed a variety of views, making clear differences in views." As host of this year's G-8 Summit, Japan is likely to find it difficult to bridge gaps in views.

International standardization of EU emissions trading rules gaining momentum; Japan under pressure for swift response

Commentary: The Tokyo metropolitan government has announced that it would join the International Carbon Action Partnership (ICAP) specifying a set of rules on greenhouse gas emissions trading, adopted under the leadership of the European Union (EU). An expansion of the ICAP membership is likely to accelerate the pace of

the growing international carbon market, effectively giving a boost to the international standardization of the EU model. The Japanese government, which is studying its own system, now finds itself under pressure to respond to it speedily.

ICAP is made up of countries and regions that have implemented or are actively pursuing the implementation of carbon markets through mandatory cap and trade systems. Japan is now only an observer of

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ICAP due to stiff resistance from steel and other industries about capping emissions.

Environment Minister Kamoshita in a symposium on March 16 said: "Heavy industries will not always bring wealth to Japan. A certain type of cap will bring about technological innovation and competitiveness. We would like to make Japanese rules into international standards without following the EU-model."

The Tokyo metropolitan government does not think it can immediately implement the emission trading system, with a senior official saying: "Joining ICAP does not mean abiding by the EU rules." Environmental protection ordinances must be reviewed, and rules inconsistent with those of other areas in Japan make it difficult for enterprises to map out their business strategies.

Japan still can use the EU's know-how in designing its system. Former British Prime Minister Tony Blair described emission trade using the EU system as a global trend. Formally joining ICAP and actively taking part in discussion would be a shortcut to getting Japan's view reflected in work to establish international rules.

9 industries set independent targets

In order to meet greenhouse gas reduction targets set under the Kyoto Protocol, nine industries, such as school and broadcasting, have drawn up new independent action programs. Four industries, including supermarkets and convenience stores, will reduce a total of 300,000 tons of CO2 annually, increasing their targets from the existing independent programs.

The programs will be announced at a joint council meeting today of the Environment Ministry and METI.

The nine industries include private schools, commercial broadcasters, NHK (Japan Broadcasting Corporation), and cable television operators. Seven industries listed numerical targets, with commercial broadcasters aiming to increase energy efficiency by 10 PERCENT in fiscal 2010 from fiscal 2004 levels.

Supermarkets and convenience stores, department stores, and construction machinery have raised their targets.

(3) Last-ditch battle over nomination for BOJ governorship to avoid creating vacancy

NIKKEI (Page 2) (Full)
March 17, 2008

The government made every possible effort to break the impasse over the issue of nominating a successor to Bank of Japan Governor Toshihiko Fukui, whose term of office expires on March 17. The Democratic Party of Japan (DPJ) and other opposition parties are adamantly opposed to the government's plan to promote BOJ Deputy Governor Toshiro Muto to become governor. Even if the government proposes an alternative to Muto, however, it will not be easy to gain approval from the opposition bloc. To break the impasse, some suggest having Kyoto University Professor Masaaki Shirakawa, whose nomination as BOJ deputy governor was approved in the two Diet chambers, serve as acting governor. Others propose extending the term of the incumbent governor for the time being, without presenting another nominee.

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(1) Possibility of submitting another nomination upon ascertaining DPJ response

An increasing number of ruling party members have begun to say that the government may have to propose an alternative to Muto for the BOJ governorship, given the Democratic Party of Japan's (DPJ) tough stance. Opposition parties, which control the House of Councillors, have declared that they would not agree if the government resubmits the Muto plan. Prime Minister Fukuda has also begun to consider that it will be unavoidable to nominate another candidate.

Appearing on a TV program yesterday, Liberal Democratic Party member Kaoru Yosano indicated a negative view about resubmitting the Muto plan, saying: "It is reckless to resubmit a plan that was once rejected in the Upper House." He also stressed the need for prior talks to be held with the opposition bloc, remarking: "We must hold negotiations with each party before coming up with a specific name."

DPJ Secretary General Yukio Hatoyama hinted that the party might agree if the government nominated Asian Development Bank President Haruhiko Kuroda or Hiroshi Watanabe, an advisor to the Japan center for International Finance, both former vice finance ministers for international affairs. But it is difficult to judge whether this is Hatoyama's personal view or the party's collective opinion. If the prime minister easily gives consent on the DPJ proposal, he could give the impression that he is under the control of the DPJ and lose his grip on the party, as a result.

It will not be easy for Prime Minister Fukuda, who has continued to say that Muto is the best choice to find another candidate at this stage. It has been reported that although Fukuda unofficially asked a person outside the bureaucracy to assume the governorship, the person declined the offer, citing the reason that a high decree of specialization is required for monetary policy. Aides to the prime minister reportedly were busily engaged in selecting a new candidate last night, too.

(2) Possibility of Shirakawa serving as acting governor, with no alternative presented

A close aide to Prime Minister Fukuda said: "The prime minister cannot easily give up on the plan. Since there was no other proper candidate, he nominated Mr. Muto." Government officers also said yesterday that the prime minister has not changed his mind. Even so, the DPJ, the largest party in the Upper House, remains tough in opposition to the Muto plan.

A senior LDP member said last night: "There is the possibility that the Prime Minister's Office will not be able to nominate a new candidate for the governorship today." This remark is based on a scenario in which the government asks the ruling and opposition camps to take more time for the selection process to set a cooling-off period. In this case, it will become necessary to take some measures to avoid creating a vacancy in the governor's post after Fukui's term of office expires.

To avoid creating a vacancy, some suggest revising the Bank of Japan Law to enable Fukui to continue to perform his duties until his successor is appointed.

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As the condition for allowing the incumbent governor to perform his duties even after the expiration of his term, the DPJ is expected to thrust before the government a pledge not to re-nominate Muto in the future. Even if a bill amending the said law is voted down in the Upper House, the government will be able to readopt the bill in the House of Representatives, based on the relevant provision in the Constitution.

Some persons suggest the idea of letting Shirakawa serve as acting governor for the time being. In this case, too, the vacant post must be filled at least by the next monetary policymaking meeting scheduled for April 8.

In the government, some propose having Shirakawa serve as acting governor and enacting a bill amending the Bank of Japan Law by an override vote in the Lower House, based on the 60-day rule, while he is in office as acting governor. Since this proposal is intended to leave the possibility of a "Governor Muto" by setting a provision that recognizes the Lower House's superiority for the appointment. But if this proposal is translated into action, the government and the DPJ will unavoidably clash head-on.

(4) Interview with Kunihiro Miyake, former minister at Japanese Embassy in Iraq: Japan benefited from SDF dispatch to Iraq; Japan secured U.S. confidence by sharing risk with other countries

MAINICHI (Page 6) (Full)
March 16, 2008

-- How do you see the governing of postwar Iraq?

Miyake: When I went to Iraq after the war, I was surprised at what an U.S. responsible official told me: "We succeeded in the occupation of Germany and Japan. So, we will win here." But I thought that the U.S. would definitely fail with such thinking. The U.S. official, who was only in his twenties, said: "I will teach Iraq democracy." I wondered whether proud Iraqis would welcome such an attitude. I thought I had come to an unbelievable place.

-- International opinion was divided on the Iraq war.

Miyake: Opinion is divided on the Iraq war, depending on each country's internal situation, as well as the international situation. At that time, however, then Iraqi President Saddam Hussein's defiant attitude toward the international community had exceeded the tolerance level. The war itself was not wrong in the sense of forcing the former president out of power. But I think the postwar occupation of Iraq was a mistake because sufficient troops were not sent there, and there was no plan to run the country.

-- Japan sent its Self-Defense Forces (SDF) personnel to the southern Iraq city of Samawah.

Miyake: What Japan had to do was clear. With the economies of China and India growing fast, all eyes have been focused on energy security. To ensure a stable crude oil supply, it is only natural for Japan to support Iraq in rebuilding itself. Japan's economic assistance in the Iraq war (in 1991) was not appreciated. In that context, Japan gained much benefit from the small investment of dispatching SDF troops to Iraq. If Japan did not dispatch the SDF, its status would have been downgraded in the international community.

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-- What was changed by the SDF deployment?

Miyake: The United States and other countries treated Japan as their true partner and provided us with intelligence, as well. I really felt the respect given Japan for sharing the risks with other countries; there was a difference from the past in the international community's treatment of Japan.

Another important factor is that all SDF personnel returned home safely. Japan learned from the failure in World War II, during which the Japanese military acted recklessly. It proved, too, that the SDF is under civilian control, which led to gaining the public's confidence in the SDF. Japan should carry out this kind of SDF dispatch. But it will be difficult to do so due to the lack of political leadership.

-- What is your view on the appropriateness of future dispatches of SDF troops overseas?

Miyake: If Japan dispatches the SDF overseas, it would probably send them during an emergency. The reason East Asia has enjoyed peace for such a long time is that the causes of disputes were frozen because of the legacy of ideological confrontation during the Cold War

period. In short, Japan has been in an easy situation. If tensions grow, however, public opinion would run ahead at high speed and mistakes would be made. In order to prevent such a situation, Japan needs to prepare for emergencies. There is nothing wrong with having a military capability, but how to use it is important.

Kunihiko Miyake worked at the Japanese Embassy in Iraq for about two years since 1982. He left the Foreign Ministry in 2005 after serving in such posts as director of the Japan-U.S. Security Treaty Division, minister at the embassy in China, minister at the embassy in Iraq, and director general of the Middle Eastern and African Affairs Bureau. He is currently a visiting professor at Ritsumeikan University.

(5) Australian prime minister enjoying high public support for anti-whaling posture; Makes light of Japan while placing importance on China

YOMIURI (Page 9) (Full)
March 14, 2008

(Arai, Sydney)

Some changes have been occurring in relations between Japan and Australia since the Labor Party assumed power in Australia last November. Prime Minister Kevin Rudd will make a round of visits to the U.S., European countries, and China in his first overseas trip after coming into office. He will not visit Japan, against the backdrop of the ongoing bilateral dispute over Japan's research whaling in the Southern Ocean. This decision also reflects the Australian government's new foreign policy of giving priority to China.

Expectations growing in business world

Rudd announced that he would visit Washington, New York, Brussels, Bucharest, London, and Beijing from March 27 through April 13. In China, he will meet President Hu Jintao and other Chinese officers

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in a bid to increase business chances in China for his country's firms in cooperation with the Australian business community.

Australia and China have deepened their bilateral ties on the economic and security fronts. For Australia, Japan had long been its largest trade partner, but China captured the top position in 2007. The two countries' foreign ministers held their first strategic dialogue in February 2008, in which Australian Foreign Minister Smith voiced opposition to an initiative for holding a strategic dialogue among Japan, the U.S., Australia, and India, out of consideration to China.

Prime Minister Rudd used to be a diplomat who once served in the Australian Embassy in China. Through this experience, he has established extensive personnel ties in China. He is also proficient in Chinese. His daughter is married to a Chinese-Australian, and his son studied in China. As it stands, he is closely connected with China. The Australian business world has placed high expectations for the prime minister's efforts to strengthen relations with China.

Criticism as weak-kneed stance

Prime Minister Rudd dispatched Foreign Minister Smith to Tokyo this January. Smith and Foreign Minister Koumura agreed to do their best to avoid the whaling issue from negatively affecting the bilateral relationship. A source connected to Japan-Australia relations said: "Should Prime Minister Rudd visit Japan, the whaling issue will inevitably be brought up in a meeting between Rudd and Prime Minister Fukuda. The two countries now share the view that they don't want to hold a bilateral summit for the time being." The effect of whaling issue on bilateral relations has become quite serious.

In Australia, many people are strongly opposed to whaling operations. The ruling and opposition parties are both against

whaling, and the former John Howard administration was no exception. However, Prime Minister Howard, who established "a honeymoon period with Japan," according to a Foreign Ministry source, as represented by his signing of a joint security declaration with the then Japanese prime minister, was labeled as "week-kneed toward Japan." That is because he gave priority to economic and security relations with Japan, without tackling the whaling issue head-on.

The Rudd administration absorbed the deep-seated public dissatisfaction by dispatching vessels to watch Japan's whaling operations in the Southern Ocean, as well as by expressing a willingness to look into bringing the case to international court. The prime minister offered an historic official apology to the original inhabitants Aborigines. Dennis Shanahan, political editor of the Australia's national daily newspaper The Australian, said: "'The anti-whaling stance' and his 'apology' showed the effect of the change of government to the people."

As a result, the latest public opinion survey conducted by the Australian set a record high of public support for Prime Minister Rudd at 73 PERCENT , while the rate of support for opposition leader Brendan Nelson hit a record low of 7 PERCENT . Prime Minister Rudd is now enjoying his "honeymoon with the people."

Consideration to U.S.

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Given Australia's decision to withdraw about 500 of its 1,500 troops or so now being deployed in Iraq, there were views worrying about its impact on relations between the U.S. and Australia

Nonetheless, in regular U.S.-Australia foreign and defense ministerial talks held in Australia on Feb. 23, an Australian representative emphasized that the Australia-U.S. alliance will continue to be the cornerstone of Australia's diplomacy and indicated that the government would dispatch more police troops to Afghanistan. By revealing these plans, the Rudd administration succeeded in reconstructing the relationship with the U.S., blowing off Washington's concerns.

Australia is not a member of the North Atlantic Trade organization (NATO), but the prime minister will attend a summit meeting of NATO to be held in Bucharest during his visit there soon. Rudd is expected to underscore the need for NATO member nations to strengthen their involvement in Afghanistan. Australia has dispatched about 1,000 troops to Afghanistan.

SCHIEFFER